

**HOUSE OF REPRESENTATIVES STAFF ANALYSIS**

**BILL #:** HB 1321

Tax on Sales, Use, and Other Transactions

**SPONSOR(S):** Patterson

**TIED BILLS:**

**IDEN./SIM. BILLS:** SB 1766

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	<b>REFERENCE</b>	<b>ACTION</b>	<b>ANALYST</b>	<b>STAFF DIRECTOR</b>
1)	<u>Economic Development Policy Committee</u>	<u></u>	<u>Tait</u>	<u>Kruse</u>
2)	<u>Finance &amp; Tax Council</u>	<u></u>	<u></u>	<u></u>
3)	<u>Economic Development &amp; Community Affairs Policy Council</u>	<u></u>	<u></u>	<u></u>
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5)	<u></u>	<u></u>	<u></u>	<u></u>

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**SUMMARY ANALYSIS**

Gas turbine engines are used in a variety of applications, including power generation, marine activities, and aviation. They work by using a compressor to draw in and compress gas, with a combustor (or burner) adding fuel to heat the compressed gas, and a turbine extracting power from the hot air flow.

The bill exempts the sale or use of cores, patterns, molds, and other materials consumed in the production of castings that are used for the manufacture, production, or modification of gas turbine engine parts used on aircraft and industrial gas turbines from the tax imposed by s. 212.08, F.S.

The Revenue Estimating Conference determined that the bill would have an annualized negative fiscal impact of \$600,000 to state general revenues for the 2010-2011 fiscal year. The Conference also determined that the bill would have a recurring negative fiscal impact of \$200,000 to local governments.

## HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. EFFECT OF PROPOSED CHANGES:

##### Present Situation

A turbine is any kind of spinning device that uses the action of a fluid to produce work. Fluids used in turbines include air, wind, water, steam and helium. Windmills and hydroelectric dams are two examples of turbine action being used to turn the core of an electrical generator to produce power.

Gas turbines were first developed in the 1930's, and were used to generate electricity and power airplane flight. Gas turbines use a compressor to draw in and compress gas (usually air), then a combustor (or burner) adds fuel (such as propane, natural gas, kerosene or jet fuel) to heat the compressed gas, and a turbine extracts power from the hot air flow. The gas turbine is an internal combustion engine employing a continuous combustion process. Gas turbines are also known as combustion turbines, turboshaft engines, or a gas turbine engines in power generation and marine applications and as jet engines, jet turbine engines, turbojets, turbofans, fanjets, turboprops or prop jets in aviation applications.<sup>1</sup>

Gas turbines have many applications, and are used in power plants, tanks, jets, helicopters and trains.

##### Effect of Proposed Changes

The bill exempts the sale or use of cores, patterns, molds, and other materials consumed in the production of castings that are used for the manufacture, production, or modification of gas turbine engine parts used on aircraft and industrial gas turbines from the tax imposed by s. 212.08, F.S.

The bill has an effective date of July 1, 2010.

#### B. SECTION DIRECTORY:

**Section 1:** Amends s. 212.08(7), F.S., providing for an exemption on the sale or use of cores, patterns, dies, and molds consumed in the production of castings used to manufacture, produce, or modify gas turbine engine parts used on aircraft and industrial gas turbines.

**Section 2:** Provides an effective date of July 1, 2010.

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<sup>1</sup> "Introduction to Gas Turbines for Non-Engineers," *Global Gas Turbine News, Volume 37: 1997, No.2*. By Lee S. Langston of the University of Connecticut and George Opdyke, Jr. of Dykewood Enterprises. Retrievable at: [files.asme.org/IGTI/101/13001.pdf](http://files.asme.org/IGTI/101/13001.pdf). Last visited 3/13/10.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

#### 1. Revenues:

On March 12, 2010, the Revenue Estimating Conference adopted a consensus estimate that the bill would have an annualized negative fiscal impact of \$600,000 to state general revenues for the 2010-2011 fiscal year. The negative fiscal impact to general revenues for future fiscal years is:

FY 2011-2012	\$600,000
FY 2012-2013	\$600,000
FY 2013-2014	\$700,000

#### 2. Expenditures:

None.

### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

#### 1. Revenues:

The Revenue Estimating Conference determined that the bill would have a recurring negative fiscal impact of \$200,000 to local governments.

#### 2. Expenditures:

None.

### C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

This legislation has the potential to positively impact the private sector as exempting the sales tax liability on the materials needed to manufacture gas turbine engine parts may generate an increase in the manufacture, production, or modification of gas turbine engine parts.

### D. FISCAL COMMENTS:

None.

## III. COMMENTS

### A. CONSTITUTIONAL ISSUES:

#### 1. Applicability of Municipality/County Mandates Provision:

The mandates provision appears to apply because the bill reduces the authority that municipalities or counties have to raise revenue. The Revenue Estimating Conference determined that the bill would have a negative fiscal impact of \$200,000 annually to local governments. This figure includes an insignificant impact on revenue sharing, \$100,000 in local government half-cent tax, and \$100,000 in local option tax. However, an exemption applies to the mandates provision when the impact is insignificant. The fiscal impact to local governments in this bill does not meet or exceed the \$1.9 million threshold. Therefore, the bill's impact to local governments is insignificant.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

The bill grants a sales tax exemption to the sale or use of cores, patterns, molds, and other materials consumed in the production of castings for only gas turbine engine parts. There are other types of turbines (including steam, water and wind), and while the component metals vary by type of turbine, the manufacturing process and cores, patterns, molds and other materials used are the same. This would require the exemption being prorated for companies that produce parts for more than one type of turbine.

#### **IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES**